PROGRAM FOR FISCAL ADJUSTMENT AND MAINTENANCE OF SOCIAL SPENDING

(BO-0173)

EXECUTIVE SUMMARY

BORROWER AND: GUARANTOR:	Republic of Bolivia	
EXECUTING AGENCY:	Ministry of Finance	
AMOUNT AND SOURCE:	IDB: (FSO)	US$50 million
	Total:	US$50 million
FINANCIAL TERMS AND CONDITIONS:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	30 months
	Interest rate:	1% during grace period
	30 years	
	Inspection and supervision:	1%
	Credit fee:	0.5%

OBJECTIVES: The general objective of this quick-disbursing sector program is to support the government in protecting priority social spending with the greatest impact on the lowest-income groups, while maintaining the goals of the macroeconomic stabilization process. Its specific objectives are to: (i) provide quick-disbursing funds to cover part of the temporary shortfall resulting from the fiscal emergency, while supporting maintenance of the economic stabilization process; (ii) protect social spending on priority investment programs selected on the basis of their impact on low-income groups, in education, health and child welfare; (iii) support the implementation of reforms in the education, health, low-cost housing and child welfare sectors; and (iv) help strengthen the government's institutional structure in order to optimize the coordination, programming and monitoring of its social policy.

DESCRIPTION: The following components of the program will be monitored to ascertain eligibility for disbursement: (i) maintenance of macroeconomic stability and social matrix indicators under the Highly Indebted Poor Countries (HIPC) Initiative described in paragraph 1.6; (ii) protection of social spending on education, health and child welfare in 1998, 1999 and 2000, in a manner consistent with the reforms under way in those sectors, at the levels established under the priority social reform programs being implemented by the Bolivian government with financing from the Inter-American Development Bank (IDB) and the World Bank (WB) and referring to spending by the central, departmental and municipal governments and through investment and development funds; and (iii) measures to support social sector reforms, designed to eliminate bottlenecks for social spending and help ensure proper performance.

ROLE OF THE PROJECT IN THE BANK'S COUNTRY AND SECTOR STRATEGY:

This operation is consistent with the Bank's operating strategy, which seeks to promote the alleviation of poverty through measures to improve living conditions by facilitating access to basic education, health, sanitation and housing services. The lines of action under this strategy include support for macroeconomic stability and broad-based growth, development of human capital and access to basic social services, together with consolidation of the reforms. This operation will contribute substantially to all these objectives, in addition to supporting effective execution of Bank operations in related fields.

Execution of the program is also expected to help meet the HIPC social matrix targets agreed upon, especially those connected with protection of investments and nonwage expenditures to ensure proper execution of the priority programs and actions identified in that matrix.

DISBURSEMENTS:

The loan will be disbursed in three tranches, an initial tranche of US$20 million and two subsequent tranches of US$15 million each, as shown in the matrix attached as Annex II-1. The first disbursement, which would be made in November 1998, will consider the findings of the evaluation of the HIPC agreement, partial performance of the budget for protected programs in 1998 and the Executive's proposed protected programs budget for 1999. The second disbursement will consider the budget approved for 1999, budget performance for 1998 and that of the first half of 1999. The third disbursement will consider achievement of the HIPC social matrix targets, the budget approved for the year 2000, budget performance in 1999 and that of the first half of the year 2000.

REVIEW OF ENVIRONMENT AND SOCIAL IMPACT:

The priority social programs financed by the Bank and the World Bank be set out in detail in order to demonstrate that they incorporate mechanisms that will ensure compliance with applicable environmental legislation and regulations (see paragraphs 3.14 and 3.15).

BENEFITS:

This program is expected to produce the following benefits: (i) by providing quick-disbursing funds to help cover the fiscal deficit, it will make it possible to balance public finances and maintain economic stability, which will in turn foster sustained growth of the economy and increased income levels, especially for the most disadvantaged groups of the population; (ii) by protecting public social investment in education, health and child welfare, it will ensure spending levels that will allow for provision of these services designed to assist the lowest-income groups, thereby helping to improve the country's social indicators, as included in the targets agreed upon in the HIPC Initiative; (iii) by supporting the government in the implementation of major reforms in education, health, social housing and child welfare, the program will contribute to the acceleration of the process and long-term sustainability of efforts to improve the quality and coverage of social services, thereby developing the country's human capital and furthering improvement in income distribution; and (iv) by promoting linkage of the social sectors at programming level and their comprehensive monitoring, the program will help improve the planning systems, and service management and evaluation.

RISKS:

Bolivia's external **vulnerability** and the resulting fiscal fluctuations will be addressed by establishing a program-monitoring mechanism based on control instruments that have proven effective in the past for surmounting unfavorable economic circumstances. This mechanism will also allow for timely detection of any management problems in the protected social programs (PSPs).

The difficulty of linking social programming with the country's financial and budgetary programming is a risk that the program seeks to minimize by establishing a monitoring system headed by the Vice Ministry of Public Investment and External Financing (VIPFE) and including all the institutions that participate in social programs.

Ensuring **simultaneous compliance** with multiple conditions by various sectors and institutions, including departmental governments that operate on a decentralized basis and autonomous municipalities, is a risk that will be reduced by including incentives in the PSPs (matching grants, agreements, etc.), in combination with the mechanism that the National General Treasury (TGN) has agreed to implement to ensure cooperation by the decentralized entities.

The possibility of **resistance to the program-supported social reforms** on the part of groups affected in the political and labor-union sphere is a risk that will be minimized, especially as regards reform actions involving potential conflicts, by establishing a climate of dialogue in which the social ministries will exercise an important influence for promoting a sense of ownership of the reforms among those affected by them.

The **management deficiencies** of the protected programs will be addressed by the execution mechanisms and the program conditionalities, which take this risk into account and include the necessary precautionary measures.

SPECIAL CONTRACTUAL CLAUSES:

General conditions: As a condition precedent to each disbursement, the borrower will submit evidence satisfactory to the Bank regarding: (i) maintenance of macroeconomic stability and the Enhanced Structural Adjustment Facility (ESAF); (ii) implementation of the HIPC agreements; (iii) consistency of the macroeconomic environment with the program objectives; and (iv) the progress achieved in the respective measures specified in the Social Policy Letter (see paragraph 3.6).

Special conditions: Release of each tranche will be subject to fulfillment of the conditions established in Chapter III, as follows: (i) the protected amounts match the physical progress of the programs with the budget and the budget performance of the PSPs; (ii) the procedure adopted for ensuring the local counterpart funding required from the departmental and municipal governments for the social investment programs must be submitted; (iii) the funds required for the financing of the National Housing Subsidy Program (PNSV) are available; (iv) the property of the Low-Cost Housing Fund (FONVIS) has been assessed, a sales strategy devised, and the FONVIS portfolio and assets liquidated; (v) the system for linkage and monitoring of the social policy and of the programs composing it has been designed and implemented; (vi) the necessary legal steps have been taken to ensure normal operation of the Welfare Program for Girls and Boys Under Six (PAN); and (vii) the system for budgetary programming and execution for public investment has been improved. The borrower will also be required to submit by December 31, 1998 the monitoring plan for accomplishment of the HIPC goals for the years 1999-2000, including a set of social policy indicators, goals and measures, and the PSP programming for the year 1999-2000, detailing the physical targets and flow of funds projected for that period (see subparagraph 3.7 (a), (b) and (c)).

In addition, the borrower will be asked to agree to ensuring compliance with general environmental legislation and specific regulations in the protected programs (see paragraph 3.8).

POVERTY TARGETING AND SOCIAL SECTOR CLASSIFICATION: The conditionality seeks to protect programs in the social sectors selected on the basis of their impact on poverty. Since the great majority of the beneficiaries of these programs belong to the lowest income brackets according to the classification set forth in document AB-1704 (paragraph 2.15), this program qualifies as a poverty targeted investment (PTI).

Regarding the social classification of the loan (paragraph 2.13 of document AB-1704), this project falls in the social equity and poverty reduction category, since it protects investments in the health, education and child welfare sectors.

EXCEPTIONS TO BANK POLICY: None